

## Comments from the Board Chairman, Castellum AGM, 2019



**Independent industry leader blazes the trail to new business opportunities**



**CHARLOTTE STRÖMBERG**  
CHAIRMAN OF THE BOARD

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**MEMBERS OF THE BOARD**



Top row, from left: Charlotte Strömberg, Per Berggren, Anna-Karin Hatt, Christer Jacobson  
Bottom row, from left: Christina Karlsson Kazeem, Nina Linander, Johan Skoglund

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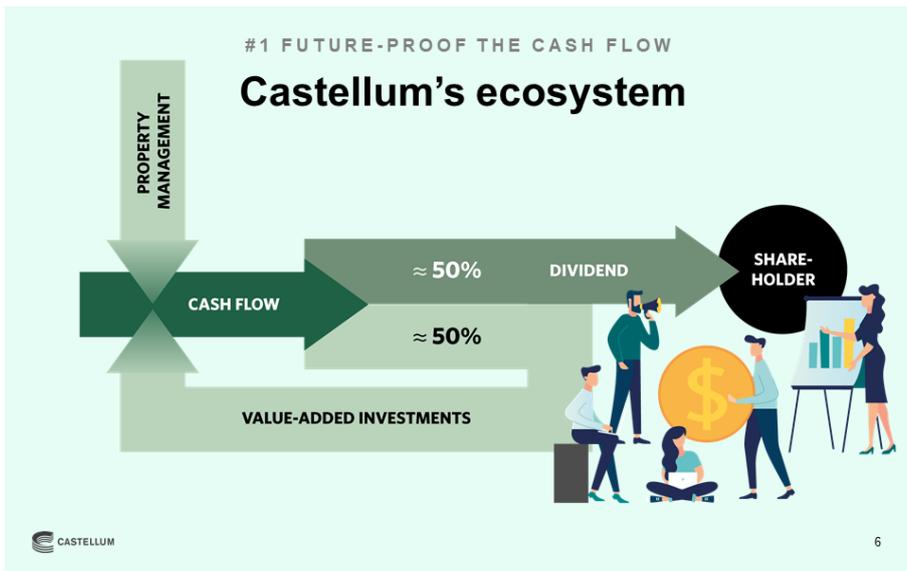
I'd like to begin by presenting my bright colleagues on the Board of Directors. This is a team that you – the shareholders – have chosen. A team that in recent years has driven a goal-oriented and conscious, clear agenda for change, alongside Castellum executive management. The ultimate goal is to create sustainable shareholder value – and that means taking far-sighted responsibility for the capital you have placed in our trust.



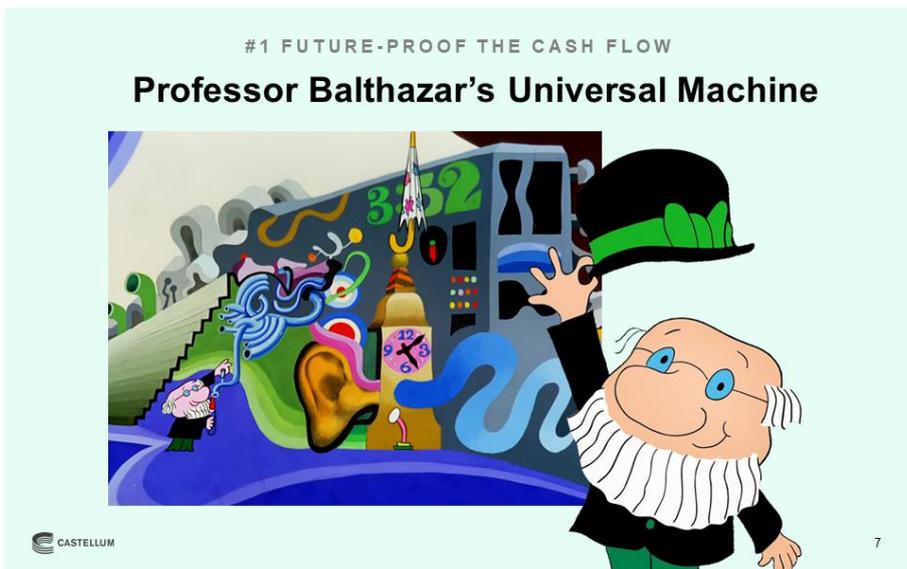
I'll now invite you to a taste-sampling menu and tell you about a few focus areas that rank high on the Board's agenda. We can sort these under three headings: Future-proof the cash flow; Recipe for Success; and Wallet issues



Area One is a returning favourite. For Castellum, a long-term increase in cash flow is a key theme in our business model. Through our ecosystem, the objective is to create competitive Total Shareholder Returns (TSR) – the sum-total of dividend-value and share-value increase – for the company's owners.

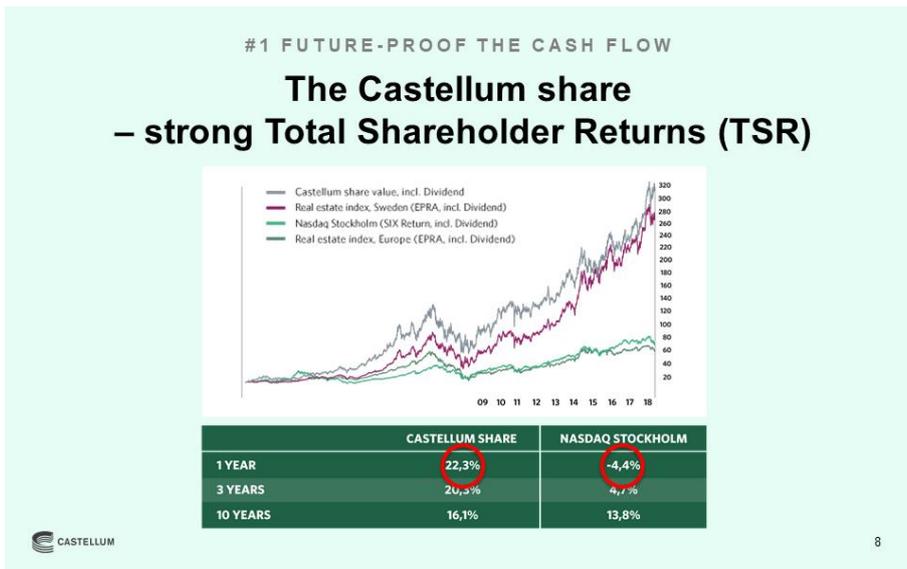


The architecture is simple; cash-flow is divided into two streams. One half goes back to the shareholders in the form of annual dividends; the other is reinvested in projects and other value-creating investments, and works as an engine for cash-flow growth in upcoming years.



A little like Professor Balthazar's Universal Machine, for those of you who know your kid programs. Or a perpetual motion mobile, for those with more classic schooling.

So how has it worked out for 2018?



2018 will be recorded as the year the stock market slumped after six years of increases. The TSR yield on Nasdaq fell by four percent, and the market hit the low notes. But we can be happy about the fact that Castellum hit the high notes, and delivered a total shareholder return as high as 22 percent. The picture also demonstrates that a strong TSR yield has been sustained over a number of years.

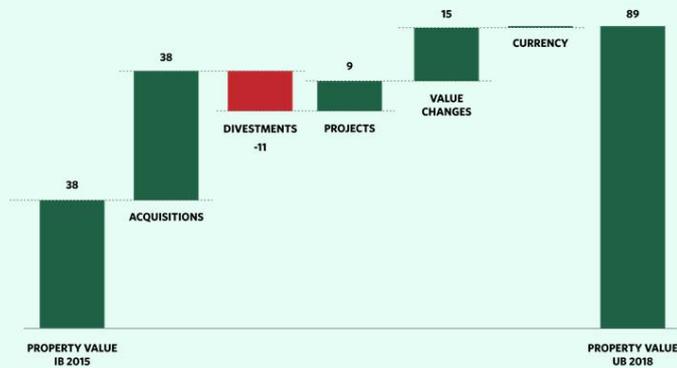


Now if we focus forward again. The key to future revenues is that our real estate portfolio matches the quality and locations which matches high demand requirements and readiness to pay. Simply expressed, we have concentrated our business to the major Nordic cities where economic growth is highest.

One clear task for Castellum's Board is therefore to inspire a high business tempo, where we see change as an opportunity. Our role is to make demands, but also to support executive management through the transformation – and the transformation has been significant.

#1 FUTURE-PROOF THE CASH FLOW

## Quality Repositioning Toward Strong Growth Areas



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In the past four years, we have achieved acquisitions of 38 billion kronor. This is rather exactly what the entire portfolio was worth at the beginning of this period. We have chosen to sell assets of approx. 11 billion, project-developed our way to 9 billion, and finally, enjoyed property-value increases that amounted to 15 billion kronor.

The property-value increases have partially resulted from reduced yield levels, but even more from successful property management efforts. Not least, leasing rates have now reached over 93 percent, from having rested at entirely too low levels for several years.

The net result of this conscious and stubborn repositioning has led to a total portfolio value of just under 90 billion kronor at yearend. The property portfolio has more than doubled its value in four years.

Suffice to say that Castellum has managed a massive quality repositioning. The portfolio share of office buildings has increased from 55 to 75 percent, and it is concentrated to city centres in growing regions, while the refinement of a high-octane logistics portfolio has also been achieved.

#1 FUTURE-PROOF THE CASH FLOW  
**Future-proofed property portfolio**



The strategy is to continuously future-proof a property portfolio that accommodates the requirements of generations to come. In order to support and accelerate this strategic agenda, high-tempo change becomes a constant and ever-present theme that never ends. A perpetual motion machine!



The next chapter in the Board's focus areas is called Recipe for Success. Understanding the world around us, and that amazing variety of trends out there – everything from urbanization and digitalization to boom-and-bust economies in the traditional sense – is essential. We've been spoiled enough in recent years, to have enjoyed "the perfect storm" of economic growth and low interest rates.



If we were ever forced to rank a Board's various tasks, retention of the long-view perspective would be absolutely most important for me. To see around and beyond those nearest corners – beyond the quarterly reports – to drive change that lays the foundation for solid returns at limited risk.

We understand that the future looks more complex than anything we have previously experienced. Perhaps we think that technical development is racing by like a high-speed train?



But the fact is that it will never again proceed at the same relaxed pace as right now!



When the Board trains its collective eye forward, we perceive a few challenges, but most of all, a mass of huge opportunities. Let me briefly touch on four Major Issues, namely:



Our abilities at *innovation and securing the right competence*, our ability to capitalize on Castellum’s unique position as *independent, strong and far-sighted*, as well as an ability to cement our role as *community-builders with sustainability as a springboard*.

The real-estate sector has historically been protected by high entry barriers and traditional viewpoints about offers. But a lot of other industries – actually, where we would find most of our customers – have lived in an environment with fractured value-chains and fast-footed competitors. They have been dealing with totally new business models, where the consumer has been the producer, and back again. B2B becomes B2C, boundaries are erased, and it all demands an entirely new understanding for who or what the customer is, and how can they be captured and retained. Content and experience beats product and service.

Let me mention a couple of disruptive elements that are rapidly redesigning the map for us, the commercial real-estate owners.

#2 RECIPE FOR SUCCESS  
– The major issues  
**Innovation**

**Coworking → a growing range of customer offers**

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Number One is coworking. Today, more than 20 years after Booking.com captured the travel-and-hotel industry, offices have become a prime target for the same types of aggregators. Now they are called WeWork and names like that. Coworking operators capture customer relationships and customer data efficiently and effectively; they enjoy sky-high valuations and they're growing through the roof.

At Castellum, we've been monitoring how operators build attraction-strength, over a longer period. Not primarily for start-ups, for the bigger organizations, as a complement to the fixed leasing contract. It's a little like when the automotive industry runs the assembly flow with their own employees, but creates versatility by allowing other production flows to be run by temporary employment agencies.

Said and done; our own concept and technology was developed during 2018 – when the opportunity to acquire an established industry player popped up. Now we look forward to utilizing the best of both worlds, by installing Castellum's custom-designed turbo-engine onto the chassis we acquired in the form of United Spaces.

This initiative, which by its very nature, lies closer to the Hospitality industry than a traditional real-estate operation, entails a strategic investment, and as such, has comprised some part of the Board's agenda over the past two years.

Our conviction is that coworking is not a marginal phenomenon; it is a paradigm shift that will throw old structures up into the air. By seizing the opportunity to merge the new model with Castellum's existing operations, we are creating a competitive advantage with burgeoning customer value, employee morale, higher sales, and cost synergies.

#2 RECIPE FOR SUCCESS  
 – The major issues

 **Innovation**

E-commerce }  
 Logistics }  
 Last mile }



**New customer behaviours redesign supply chains**

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The Second major shift feels like the sugar-plum fairy for us at Castellum. Changing habits and behaviours, such as ordering goods via the Net, and expecting lightning-fast deliveries, are driving demand for tailor-made premises. We are sitting today on Sweden’s largest logistics portfolio. It contains significant value potential through continued project development, and perhaps also an upward revaluation of this real-estate category, such as we’ve witnessed in the rest of Europe.

These two examples illustrate how a shift in our surrounding world can be transformed into opportunities, through innovation and the courage to break through the harness and develop new customer offers. Threats are transformed into potential; short-term thinking is traded for far-sightedness.

#2 RECIPE FOR SUCCESS  
 – The major issues

 **Talent management and succession planning**



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The next Major Issue clicks into the first one: That specific ability to seize opportunities means that Castellum needs to succeed with developing , attracting and retaining top talent. We have to

attract the sharpest knives, not only in the real-estate business, but also from wider afield when business-sector-gliding and technology shifts place demand on competence development and competence exchanges.

During the year we also expanded our diversity objectives for Castellum to ensure that 20 percent of coworkers would come from an international background. This is *one*, but such a significant dimension of diversity. Our differences enrich us. We are not merely driven by a social conviction; the idea is backed by solid research that demonstrates higher efficiency and effectiveness; more innovation; better, more dynamic decisions – and thereby higher profitability – when people work in more diverse groups.

The Board has underlined talent management as a Major Issue by connecting the variable executive management salaries for 2019 to parameters which promote efforts in this direction.



Our ability to maintain Castellum’s unique position as financially strong, independent and long term casts Castellum as a credible partner – a position which promotes value-creating business transactions and opens doors that would otherwise be closed.

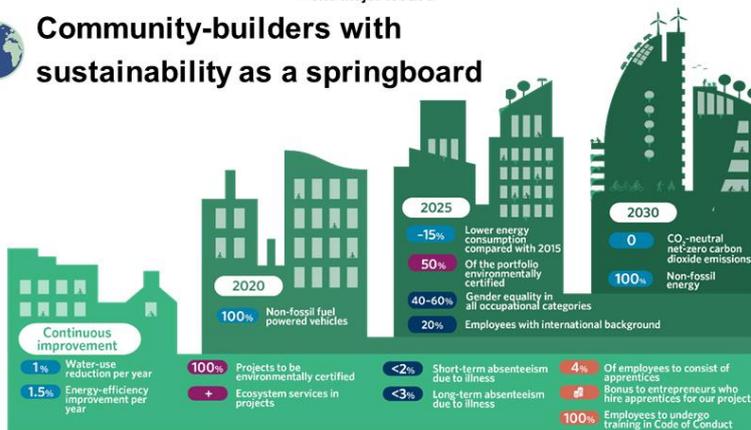
The Nordic real-estate market is fragmented. A little macroeconomic headwind, generational changes, and reallocation of pension-fund capital are factors that can end up driving a consolidation. That’s when we’re standing by, ready. During the year, the Board and executive management further emphasized the importance of financial strength by lowering the loan-to-value ratio limit so that it could not exceed 45 percent in the long term.

## #2 RECIPE FOR SUCCESS

– The major issues



### Community-builders with sustainability as a springboard



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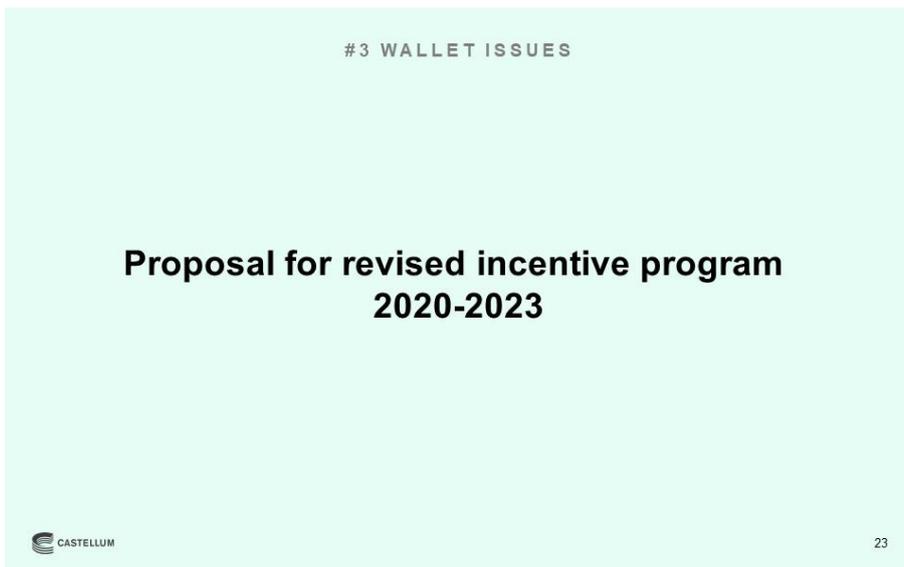
I'd like to repeat our ambition to retain the race-leader's T-shirt in the Sustainability space. We're drawing back our bows even harder and we are sharpening the targets. This year, we are also accounting for the climate risks that can affect our own operations, according to recommendations from the TCFD (Task Force on Climate related Financial Disclosures). For example, we currently conduct an assessment of a given property's sensitivity to climate change, as part of our investment process.

Again this past year, Castellum has been awarded several international distinctions and is still the only Nordic construction-and-real-estate company included in the Dow Jones Sustainability-index. This is encouraging, but not primarily what we are after – our serious aim is to make a significant contribution to the United Nations objectives for 2030.

Business advantages go hand in hand with the UN objectives and we are obsessed about joining customers and other partners to drive development towards a truly sustainable society, far beyond Castellum's boundaries. In the long run, environmental sustainability is the fast route to sustainable shareholder value, another of our promises to shareholders.



The Board's Third focus area is Wallet Issues.



As per the AGM announcement and invitation, the Board proposes a revised and renewed incentive program for the 2020-2023 period. It is one of the Board's permanent areas of responsibility to continuously evaluate the structure and level of executive management remuneration. The principles are described in the AGM invitation material as well as in the Annual Report.

Let me just make a couple of comments on the big picture, before I jump into the variable remuneration component.

### # 3 WALLET ISSUES

#### Proposal for revised incentive program 2020-2023

##### Total remuneration

- Align shareholder and management interests
- Comprehensive approach
- Philosophy
  - Limit overhead cost in favour of attractive variable remuneration
- Profile
  - Encourage entrepreneurial mindset, change and value creation



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Our point of departure is to align shareholder interests with those of executive management. Holding down overhead costs in the form of salaries, and offering a variable remuneration in return provides us with an attractive total effect. The profile encourages an entrepreneurial mindset, willingness to embrace change, and value-creation.

### # 3 WALLET ISSUES

#### Proposal for revised incentive program 2020-2023

##### Variable remuneration

- Executive management
- Three-year program
- Transparent
  - clear, value-driven and measurable goals
  - predictable cost, maximum three annual salaries over three years
- Paid out as a salary
- Purchase commitment Castellum shares  
minimum 50%
- Clawback provision



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The variable remuneration – the incentive program – affects the executive management group, runs over a three-year period, and is transparent, thanks to clear and measurable goals.

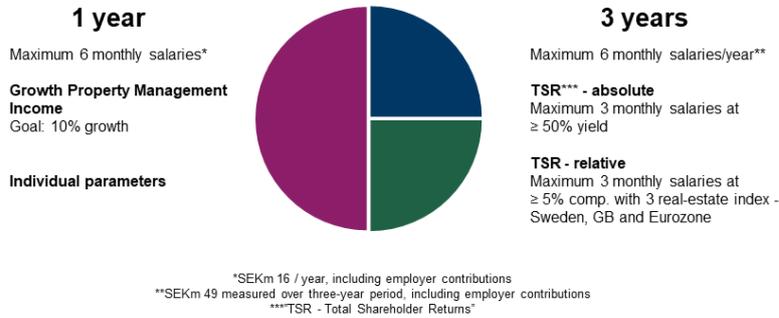
The incentive program comes with a ceiling for the remuneration that will be paid out as salary, and participants commit to buying Castellum shares for at least 50 percent of the taxed variable remuneration. The stated conditions also contain a clawback provision.

The variable remuneration has featured the same structure since Castellum's IPO (Initial Public Offering) in 1997. The present proposal is the eighth in order and comprises two segments, one annual and one for a three-year period.

# 3 WALLET ISSUES

Proposal for revised incentive program  
2020-2023

Variable remuneration



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The left side of the pie illustrates the one-year segment, which would provide a maximum of six monthly salaries.

The outcome here is strongly connected to Castellum’s external objective of ten percent annual growth in revenues from property management, as well as to individual parameters. These parameter goals will be set by the Board, in consultation with the CEO, at the beginning of every year.

# 3 WALLET ISSUES

Proposal for revised incentive program  
2020-2023

**Examples of individual parameters**

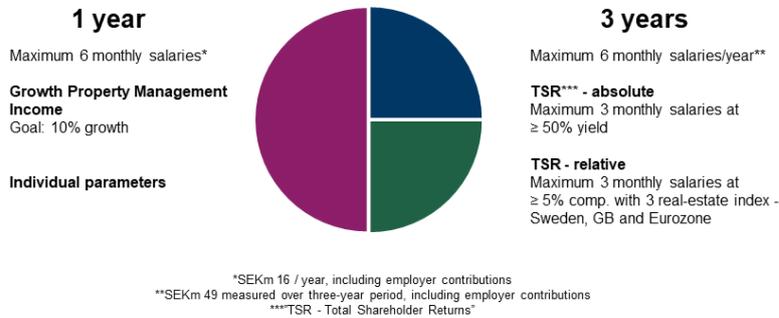
- Cost savings (kr/sq.m.)
- Net leasing (SEKm)
- NTO/ project development (SEKm)
- Divestments (SEKm)
- Financial structure/ risk (%)
- Rating
- Customer acquisition (#)
- Talent development



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Examples from recent years entail setting figures to specific work achievements, such as cost-savings, including energy-efficiency; net leasing; project development; divestment of obsolete properties; reduced loan-to-value ratio; as well as attaining an investment grade rating. This year’s individual parameters zoom in as well on customer relationships and talent management.

# 3 WALLET ISSUES  
**Proposal for revised incentive program  
 2020-2023**  
**Variable remuneration**



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The right pie-half displays ingredients from the program’s long-term segment, where fulfilling objectives is entirely related to development of the Castellum share. Here too, the maximum outcome is six monthly salaries per year, but remuneration is not assessed and paid out until the end of the three-year period.

The Absolute section requires a 50-percent TSR, which corresponds on average to 15 percent per year. In the Relative section, it’s necessary for the Castellum share to beat every one of its comparison indexes by at least 5 percentage points. These indexes have been the same for many years, and intend to reflect an alternative TSR for our ownership base, which consists of Swedish investors, but actually also includes more than 50% international institutions. The Index is EPRA’s real-estate index for Sweden, the Eurozone and Great Britain.

Altogether, the variable remuneration may amount to a maximum of three annual salaries over three years.

How have the variable remunerations worked out in relation to stated objectives?

# 3 WALLET ISSUES  
**Proposal for revised incentive program  
 2020-2023**

**Outcome – share of maximum amount**

PROGRAM	1 YEAR	3 YEARS	Σ
2011-2013	65% <sup>1)</sup>	46%	56%
2014-2016	75% <sup>1)</sup>	50%	63%
2017	71%	-	-
2018	86%	-	-

<sup>1)</sup>AVERAGE



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Here we see that the two most recently completed three-year programs yielded 56-63 percent of a maximum outcome. The ongoing plan does not run out before May, 2020. The current “meter-reading” indicates a somewhat higher outcome. This is being driven by the Castellum share’s excellent TSR, both in absolute terms and relative to real-estate shares in Sweden and internationally.

As a condition for taking part in the incentive program, executive management members build up a significant personal share ownership, and the action also creates a competitive team feeling – just an added advantage for us, the other shareholders. For employees who have held executive positions for a few years, the value of respective shareholdings has accumulated and corresponds two to six times their annual salaries – a significant element in a private economy.

The philosophy is to set the bar high, but the goals should be attainable; that is, they should represent a real incentive.

With this, I’ll pass the baton to the Annual General Meeting, to take a decision for this next three-year period, which begins on January 1st, 2020.

*Editor’s notes: It was resolved to approve the Board of Director’s proposal to renew the incentive program for members of the executive management in accordance with Appendix 8 in Minutes from the Annual General Meeting.*